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Letter dated 11 June 2002 from the Permanent Representative of Iraq to the United Nations addressed to the Secretary-General

On instructions from my Government, I have the honour to transmit to you herewith a letter from Mr. Nag Sabre, Minister for Foreign Affairs of the Republic of Iraq, dated 11 June 2002, concerning the practices of the representatives of the United States of America and the United Kingdom on the Security Council Committee established by resolution 661 (1990) in delaying an agreement on the pricing of oil.

I should be grateful if you would have this letter circulated as a document of the Security Council.

(*Signed*) Mohammed A. **Alder**
Ambassador
Permanent Representative

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Annex to the letter dated 11 June 2002 from the Permanent Representative of Iraq to the United Nations addressed to the Secretary-General

I should like to draw your attention to a serious phenomenon concerning the practices of the United States and United Kingdom representatives on the Security Council Committee established by resolution 661 (1990) in seeking to change the approval procedures for the pricing of Iraqi oil exported under the memorandum of understanding and the oil-for-food programme.

The arrangements adopted by the Committee at the beginning of the programme are set out in paragraph 5 of the list of procedures set by the Committee for the implementation of Council resolution 986 (1995) (S/1996/636), which states: "The Government of Iraq or SOMO may submit at any time pricing mechanisms for sales of petroleum for review by the Committee. The overseers will assess these pricing mechanisms, in particular whether they reflect fair market value and will provide analysis and recommendations to the Committee. The Committee will then review the pricing mechanism according to its no-objection procedure within two business days".

The above-mentioned procedures were in force until the end of September 2001 when the Committee agreed to the pricing proposed by the Iraqi State Oil Marketing Organization (SOMO) within two business days.

In October 2001 the United States and United Kingdom representatives began to suspend the oil pricing mechanisms submitted to the Committee, thereby delaying agreement on pricing, despite the fact that SOMO had discussed this pricing and agreed to it with the oil overseers of the Office of the Iraq Programme. This constitutes a flagrant violation of these procedures.

Experience since October 2001 has shown that an agreement on oil pricing takes a period of not less than 20 days, and in many cases more than 30 days, from the date on which the pricing is submitted. As a recent example, SOMO is still awaiting a pricing agreement for the month of May 2002 on shipments destined for the United States market, despite the fact that over 35 days have elapsed since the pricing was proposed.

This conduct, consisting of delaying an agreement on pricing, which the oil market calls "retroactive pricing", has placed purchasers of Iraqi oil in the position of the injured party in purchasing our oil as compared with other, competitor oil on the market, since they have been forced to load shipments of oil without knowing the price they will pay or the extent of risk to which they will be exposed. As a result, some purchasers of Iraqi oil have suffered huge losses. This has naturally made them hesitant as to whether to load shipments of our oil or to forgo them, and has led to delays in loading shipments already agreed upon. This has resulted in a big decline in Iraqi crude oil exports — a decline estimated at some 500,000 barrels a day — with respect to Iraq's export capacity and has thus adversely affected the revenue under the memorandum of understanding and the oil-for-food programme.

These adverse effects were more visible during the last month of phase XI and the beginning of phase XII of the implementation of the memorandum of understanding, when there was another drop in crude oil exports.

In the light of the foregoing, I urge you, by virtue of your responsibility for the implementation of the memorandum of understanding and the oil-for-food programme, to intervene to guarantee the correct legal implementation of the oil pricing mechanism adopted at the beginning of the programme, so as to ensure the smooth execution of the programme and the availability of sufficient funds for it.

(*Signed*) Nag **Sabre**
Minister for Foreign Affairs of the Republic of Iraq